

# FISCAL NOTE

**Bill #:** SB0379

**Title:** Disallow most tax deductions and credits for two years

**Primary Sponsor:** Cobb, J

**Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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## Fiscal Summary

### Expenditures:

General Fund

**FY 2004**

### Difference

\$30,041

**FY 2005**

### Difference

\$0

### Revenue:

General Fund

\$72,145,000

### Net Impact on General Fund Balance:

\$(30,041)

\$72,145,000

- |   |   |
|---|---|
| <input type="checkbox"/> Significant Local Gov. Impact    | <input type="checkbox"/> Technical Concerns                       |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached  | <input checked="" type="checkbox"/> Needs to be included in HB 2  |

## Fiscal Analysis

### ASSUMPTIONS:

1. This bill would disallow for tax years 2004 and 2005 certain itemized deductions allowed under current law for individual income tax purposes; and would disallow certain tax credits for both individual income tax and corporation license tax purposes.
2. The individual income tax itemized deductions disallowed for tax years 2004 and 2005 include:
  - a) medical insurance premiums;
  - b) deductible medical and dental expenses in excess of 7.5% of MAGI;
  - c) child and dependent care expenses;
  - d) casualty and theft losses;
  - e) unreimbursed employee business expenses;
  - f) gambling losses; and
  - g) charitable contributions.
3. The following tax credits would not be allowed for tax years 2004 and 2005:
  - h) college contribution credit;
  - i) elderly care credit (individual income tax only);
  - j) geothermal energy system credit (individual income tax only);
  - k) recycling credit;
  - l) alternative fuels credit;
  - m) Montana capital company credit;
  - n) dependent care assistance credit;
  - o) employee disability credit;

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- p) infrastructure user fee credit;
  - q) historic building preservation credit;
  - r) increased research activity credit; and
  - s) mineral exploration credit.
4. Disallowing the above itemized deductions increases *tax liability* by \$66.245 million in tax year 2004 and by \$70.975 million in tax year 2005 for *full-year residents* only. When all taxpayers, including part-year and nonresident filers, are included, liability is reduced by \$70.858 million in tax year 2004 and by \$75.993 million in tax year 2005. The Department of Revenue will not adjust withholding tables for this change in tax law, and taxpayers will not adjust quarterly estimated tax payments in fiscal year 2004. Consequently, there is no impact from this proposal in fiscal year 2004. The tax year 2004 liability impact of \$70.858 million will occur in fiscal year 2005; and the tax year 2005 liability impact of \$75.993 million will occur in fiscal year 2006.
5. Repealing the above credits related to the individual income tax for tax years 2004 and 2005 increases general fund revenue by \$1.142 million in fiscal year 2005, and by \$1.216 million in fiscal year 2006.
6. Repealing the above credits related to the corporation license for tax years 2004 and 2005 increases general fund revenue by \$145,000 in both fiscal 2005 and fiscal 2006.
7. Revenues to the general fund increase a total of \$72.145 in fiscal year 2005 ( $\$70.858 + \$1.142 + \$0.145 = \$72.145$ ); and a total of \$77.354 in fiscal year 2006 ( $\$75.993 + \$1.216 + \$0.145 = \$77.354$ ).
8. The Department of Revenue will incur additional administrative expense to provide programming changes to the individual income tax and corporation license tax systems to suspend the itemized deductions and credits for tax years 2004 and 2005 called for in this bill. Administrative costs increase a total of \$30,041 in fiscal year 2005.

### FISCAL IMPACT:

#### Expenditures:

FTE

FY 2004

Difference

.50

FY 2005

Difference

Personal Services

\$22,758

Contracted Services

7,283

#### Funding of Expenditures:

General Fund (01)

\$30,041

#### Revenues:

General Fund (01)

\$0

\$72,145,000

#### Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)

\$(30,041)

\$72,145,000

### EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

No impact.

### LONG-RANGE IMPACTS:

General fund revenues increase by \$77,354,000 in fiscal year 2006 under this bill. Administrative costs increase by \$36,444 in fiscal year 2007 when the itemized deductions and credits temporarily suspended in this bill are reinstated.